

# PHILIPPINES ECONOMIC WRAP-UP

APRIL 01-07, 2000

## Summary

This week we note the government's puzzling bent for foreign borrowings. March inflation remained low, despite hikes in international crude oil prices. Export growth continued at a 13% clip in March, but growth rates are slower than before. Local tycoon Lucio Tan has reached an agreement to sell his shares in Philippine National Bank, but many suspect his target price cannot be met. As new Trade and Industry Secretary Mar Roxas complains that investment targets are meaningless, new numbers show FDI in 1999 was down markedly.

These weekly reviews are available on the Embassy's web site (<http://www.usembassy.state.gov/manila>). A longer and more detailed review of the Philippine economy can also be found on our web site in the Embassy's January Economic Outlook. Feedback on these reports is invited via e-mail to "SchwartzTP@state.gov".

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### Market and Policy Developments

# FOREX REPORT

Bangko Sentral ng Pilipinas (BSP, the central bank) Governor Rafael Buenaventura dismissed press reports that suggested recently imposed controls on official foreign exchange transactions were driving traders to the parallel market. Noting that the difference in official and parallel market rates is less than 5 centavos, he said the real effect of the new controls had been the desired one, a dampening of exchange rate fluctuations. The controls tightened reporting requirements for forex registration and transactions, and imposed a minimum time limit on deposits.

The peso continues to hover just below the P41/US\$ mark, strengthening slightly through the week. On Friday, April 7, the peso closed at P41.105/US\$, slightly firmer than its March 31 close of P41.135/US\$.

## Exchange Rate Tables

Date	Weighted Average (Pesos/US\$)	Closing (Pesos/US\$)	Volume (Million US\$)
	-----	-----	-----
FEB 28	40.845	40.950	181.1
29	40.972	40.935	209.9
MAR 01	40.906	40.985	211.5
02	40.952	40.920	183.8
03	40.896	40.880	174.2
MAR 06	40.854	40.900	167.7
07	40.923	40.980	163.5
08	41.042	40.985	223.9
09	40.957	40.975	181.0
10	40.923	40.890	206.8
MAR 13	40.859	40.865	138.0
14	40.907	40.935	155.6
15	40.937	40.930	158.6
16	40.954	40.940	185.9
17	40.932	40.963	153.5

MAR 20	40.957	40.960	87.0
21	40.961	40.963	140.3
22	40.915	40.895	240.6
23	40.867	40.870	252.6
24	40.897	40.930	190.2
MAR 27	40.951	40.955	117.2
28	40.943	40.948	214.7
29	41.008	40.995	209.8
30	41.063	41.075	219.6
31	41.086	41.135	120.0
APR 03	41.147	41.135	197.5
04	41.174	41.150	158.6
05	41.172	41.130	150.5
06	41.129	41.120	163.0
07	41.093	41.105	128.6

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Source: Bankers Association of the Philippines

#### CREDIT MARKET REPORT

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Interest rates declined at the April 3 Treasury bill auction -- for the second week in a row. Rates on the 91-day T-bills declined 6.9 basis points to 8.843%. Rates on the 182-day T-bills declined 9 basis points to 9.385 , while rates on the 364-day bills dropped 10.8 basis points to 10.392%. Demand was fairly heavy and the Bureau of Treasury sold all of the P4 billion in T-bills on offer. Rates on the government's two-year bonds dropped by 25 basis points to 11.25% at the April 4 auction (from March 7).

Demand was only moderate with than P4.43 billion in bids for the P3 billion of bonds on offer. The Treasury made a full award. The state housing finance body, Pag-IBIG received P6.36 billion in bids for the P3.225 billion in bonds offered at its March 31 auction. The bonds yielded 8.25%, significantly higher than the 7.75% rate targeted by Pag-IBIG. A further P775 million in bonds were reserved for the underwriting banks.

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Domestic Interest Rates (in percent)

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### Treasury Bills

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Auction Date	91 days	182 days	364 days
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FEB 28	8.847	9.588	10.500
MAR 06	8.996	9.732	10.673
MAR 13	8.997	9.750	10.757
MAR 20	8.982	9.757	10.787
MAR 27	8.912	9.475	10.500
APR 03	8.843	9.385	10.392

Source: Bureau of the Treasury

### Prime Lending Rates of 18 Expanded Commercial Banks

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Date of Survey	Average	Range
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MAR 02	11.1700	9.50 - 13.375
MAR 09	11.2157	9.50 - 13.500
MAR 16	11.2353	9.50 - 13.500
MAR 23	11.2367	9.50 - 13.500
MAR 30	11.2033	9.75 - 13.500
APR 06	11.1758	9.75 - 13.500

Sources: Bangko Sentral ng Pilipinas; Press reports

### Back to the Eurobond Market

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Finance officials have said the government is weighing a \$700 million dollar-denominated Eurobond issue this quarter. Sources say this would replace the planned \$500 million samurai bond earlier planned for the first quarter. The samurai issue has been held up by the Japan bank for International Cooperation's (JBIC) delays in issuing rules for a guarantee program. Philippine National Oil Company (PNOC) will piggy-back a \$200 million issue of its own on the government's offer to fund its 10% participation in the Malampaya gas field development. Lehman Brothers and Solomon Smith Barney are managing the issue.

We find the government's offshore borrowing program puzzling. It does not need the cash, nor does the

country need foreign exchange reserves. Domestic debt would appear to be an attractive alternative, given current rates and the spread on Philippine dollar bonds - - nearly 400 basis points over U.S. Treasuries. Low inflation figures have allowed the central bank to leave its overnight rates unchanged in spite of the Federal Reserve's hike in U.S. short-term rates. There is certainly plenty of liquidity in the banking system.

#### STOCK MARKET REPORT

Selected foreign buying on Thursday propelled the 33-share Philippine stock index (PHISIX) back above the 1700 mark, although many analysts predicted the minor rally would be short-lived. Still bedeviled by reports of insider trading and lax regulation, the PHISIX ended the week on April 7 at 1,738.49, up from its March 31 close of 1681.72.

#### Philippine Stock Exchange Index (PHISIX) and Value of Shares Traded

Date	PHISIX Close	Value (Million pesos)
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FEB 28	1720.65	1338
18	1641.94	2246
19	1653.95	1543
20	1667.44	2089
21	1696.75	2080
MAR 06	1738.30	2249
07	1686.72	2127
08	1639.79	2171
09	1626.95	2610
10	1621.62	2910
MAR 13	1602.96	3049
14	1633.33	1601
15	1638.60	2033
16	1629.97	1749
17	1646.28	1859

MAR 20	1657.07	1373
21	1651.40	2047
23	1646.91	2199
24	1680.58	2256
25	1681.71	2209
MAR 27	1697.25	2280
28	1701.08	1857
29	1691.14	6015
30	1697.81	1471
31	1681.72	1686
APR 03	1688.32	976
04	1682.53	1070
05	1691.05	2634
06	1713.24	1079
07	1738.49	1223

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Source: Philippine Stock Exchange

MARCH YEAR-ON-YEAR INFLATION AT 3.3%  
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On April 5, the government's National Statistics Office (NSO) reported that March 2000's consumer price index (CPI) increased by only 0.1% month-on-month, compared to 0.5% in January and 0.3% in February. Year-on-year inflation averaged 3% during the first quarter of the year, way down from 1999's comparable 10.1% CPI increase and well within the government's targeted full-year average of 6-7% this year. Economists generally expect year-on-year inflation to trend upward as the year progresses, reflecting improving overall demand, cost push effects of fuel prices on general price levels, and lingering fiscal uncertainties. Because inflation slowed markedly during 1999's second semester, year 2000 prices also eventually will be coming off a relatively low base.

Month-on-month price increases slowed for most commodity groups, the exceptions being clothing and fuel/utilities. However, month-on-month consumer price inflation slowed more markedly in 1999's comparable period (mainly because food prices began to stabilize from the effects of late-year 1998 weather disturbances). As a result, March

2000's consumer price inflation accelerated somewhat on a year-on-year basis - i.e., to 3.3% from 3% in February.

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 PHILIPPINE CONSUMER PRICE INFLATION  
 (IN %)  
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Jan 1999	11.6	2.1
Feb	9.9	0.0
Mar	8.7	(0.3)
Apr	7.9	(0.1)
May	6.7	0.1
Jun	5.7	0.8
Jul	5.7	0.2
Aug	5.5	0.3
Sep	5.7	0.5
Oct	5.4	0.3
Nov	3.9	0.1
Dec	4.3	0.1
Average		
Jan-Mar 1999	10.1	
Jan-Dec 1999	6.6	
Jan 2000	2.6	0.5
Feb	3.0	0.3
Mar	3.3	0.1
Average		
Jan-Mar 2000	3.0	

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 Source: National Statistics Office

FEBRUARY 2000 EXPORTS UP 13% YEAR-ON-YEAR  
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February merchandise exports grew 13% year-on-year to \$2,902 million, picking up from January's 5.3% expansion. Month-on-month, February export receipts grew 6.8% after declining 7.7% the month before. The year's slow start mainly reflected a contraction (8.5% month-on-month and nearly 2% year-on-year) in exports of electronic equipment/components from exceptionally high late-year 1999 levels (spurred by Y2K-related supply disruption fears). In February, electronics exports expanded 7.8%

month-on-month and 12.4% year-on-year, accounting for nearly 60% of that months' export receipts. Cumulative January-February 2000 exports increased 9.1% from 1999's comparable two-month level. After increasing 18.8% in 1999, the government forecasts 2000 exports to also grow 14-15% for the full year.

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 PHILIPPINE EXPORT PERFORMANCE, JAN - FEB 2000  
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	1998	1999	2000
Exports (Million US\$)			
December	2,523	2,943	-
January	2,115	2,581	2,717
February	2,227	2,569	2,902
Jan-February	4,342	5,150	5,619
Y/Y Growth Rate (In %)			
Jan	25.0	22.0	5.3
Feb	22.9	15.4	13.0
Jan-Feb	23.9	18.6	9.1

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 Source: National Statistics Office

Bank Notes  
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PNB Sale Agreed: The government and tycoon Lucio Tan have finally signed a memorandum of agreement to offer their combined stakes in Philippine National Bank (PNB) as a block. The government currently holds 30% of PNB and Tan, along with associates, reportedly controls 46% of the semi-private bank. Tan's holding includes 10.6% purchased by the PNB pension fund with money borrowed from Tan and on which Tan has a purchase option. The target price of P160 per share is considered quite high by most observers. PNB's book value, based on the latest figures is only P90 per share and many analysts believe the bank's bad loan problems have not been fully reflected in the books. Finance Secretary Pardo has said publicly that three foreign groups have expressed serious interest in PNB.

MetroBank Reaches Deal With ScotiaBank: MetroBank and Canadian-based ScotiaBank have announced an agreement under which ScotiaBank will sell its 40% interest in Solid Bank to MetroBank. The average price has been pegged at 1.8 times book value in a mixture of cash and MetroBank shares. MetroBank had earlier obtained 51% of Solid Bank's shares from the two controlling families, preempting ScotiaBank's right of first refusal on part of that stake. MetroBank paid 2.5 times book value for that stake. The deal with ScotiaBank will allow MetroBank to merge Solid Bank into its own operations, a move that required it to obtain at least 65% of the bank's shares. That will allow MetroBank to retain bragging rights as the country's largest bank. ScotiaBank is not expected to retain its small (under 2%) stake in MetroBank. It has said it is waiting for passage of amendments to the banking act that could allow 100% foreign ownership before deciding on an acquisition.

#### FDI COMMITMENTS AND INFLOWS DOWN IN 1999

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The National Statistical Coordination Board (NSCB) reported that foreign direct investments (FDI) approved by the government's investment promotion agencies during 1999 dropped 37.8% in peso terms from 1998. Government-approved FDI also contracted by 34.6% in peso terms in 1998 (52.8% in US\$ terms). Government promotion agencies administer incentives for qualified investors in preferred areas or activities. Being approvals, the statistics do not reflect actual FDI remittances, but are nevertheless viewed as a barometer of investor interest.

Actual inflows - as measured by the balance of payments - showed FDI remittances up 40.2% in 1998, but down 38.5% in 1999. Looking forward, the Philippines faces even stronger competition for FDI's as regional economies recover and globalization accelerates. Government agencies are pushing for legislative support for more liberal investment incentives to corner a bigger share of FDI flows. A number of observers noted, however, that addressing current perceptions of policy and political risks will be equally important to attracting foreign investments into the country.

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APPROVED FDI'S BY GOVERNMENT PROMOTION AGENCIES

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Agency	1997 (Billion Pesos)	1998	1999	1997-98 (Growth in %)	1998-99
Board of Investment Phil. Economic Zone Authority	184.5	119.6	70.7	(35.2)	(40.9)
Subic Bay Metro. Authority	73.5	48.1	32.1	(34.6)	(33.4)
Clark Development Authority	3.2	3.4	2.8	7.4	(16.1)
	0.9	0.4	1.1	(55.3)	163.0
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Total	262.1	171.6	106.7	(34.6)	(37.8)
In US\$ Equivalent	8.9	4.2	2.7	(52.8)	(34.9)
Actual Inflows Per BOP (In Billion US\$)	1.2	1.7	1.1	40.2	(38.5)
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Sources: NSCB (for government-approved investments) and  
 Bangko Sentral ng Pilipinas (actual FDI inflows per BOP)